



McRAE  
CAPITAL  
MANAGEMENT

## INTRODUCING MCM //

// MARCH 2012

This brochure provides information about the qualifications and business practices of McRae Capital Management. If you have any questions about the contents of this brochure, please contact us at 425.673.4090 and/or [mcraecm@mcm-wa.com](mailto:mcraecm@mcm-wa.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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# Introducing MCM

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The basic philosophy of MCM is to treat our clients the way we would appreciate being treated if we were clients. This means removing potential conflicts of interest. Thus a basic concept was born giving way to the start of the invest management firm. It's important to never lose sight of the integrity of the journey. That journey began in 1998 with the formation of McRae Capital Management.





“McRae Capital Management’s mission is to be on the leading edge of innovation to provide the best performance and service while taking minimal risk. To provide financial services that exceed clients’ expectations and that are enhanced by exceptional service and support.”



# Mission Statement

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McRae Capital Management was formed as a pro-active investment company to meet the needs of individuals, families and companies. The philosophy of the company is to set the benchmark of performance high while minimizing the risk. Preservation of capital is always of top priority, achieved through the MCM style of management.

A client's account is invested in several markets or sectors while the underlying securities in each of these areas are also well diversified. This lessens the risk and increases performance over a longer period of time.

The process that MCM utilizes to reach these standards is to select the best managers in the country to serve our clients. A much broader selection of managers are available to MCM dealing on an institutional basis on the client's behalf. Managers are selected through a screening process and are held accountable to sustain not only the performance objectives, but to stay consistent within their styles. If there is a change in any of these crucial areas or a change in the management team, MCM will choose a new manager as the old performance then becomes meaningless. Each manager represents investments in a specific market or sector. Secondly, MCM does a tactical allocation whereby investment emphasis is changed from markets that are over bought to markets that are under valued. This process of readjusting the weight of portfolios lessens risk and heightens the performance of a well diversified portfolio. This proactive process allows MCM to adjust portfolios on a timely basis as the markets reach certain objectives. MCM is highly computerized with systems that allow the portfolios to be reallocated and trades executed efficiently. This process provides that all accounts are traded simultaneously, giving clients the assured benefit that each account is treated exactly the same with precision timing. Markets are scrutinized daily.

# Investment Strategy

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Your investment strategy is designed for you to be comfortable with your investments and each quarter your investments in each investment sector are measured against a benchmark to show that your investments are on target. The system has seven styles of investing, ranging in a spectrum from conservative to aggressive. Each level has a balance of investments of equities and fixed income in various markets. This diversification in various markets and instruments creates a greater degree of consistency to the portfolio to help you achieve your investment goals.

## Meeting Your Financial Needs

The process starts with determining where in the spectrum, between conservative and aggressive, your investments need to be in order to achieve both your financial goals and risk tolerance level. This is accomplished by providing a detailed financial plan which will help determine such things as how much money needs to be committed to your investments, the investment style that will be comfortable for you that will still meet your objectives, and how long you may want or need to work to meet your lifestyle goals. We can project estimated returns to your portfolio and other income areas and, with your lifestyle, can show how your investments can support you during your retirement years. The plan is helpful in determining how you may reach other goals such as college funding or other accumulation objectives. Any needed financial advice concerning yourself, your family, or business is available to clients of MCM.

## Investment Style

The equity markets will have a blend of both value & growth management with the weighting of each shifting with the various market conditions. Long-term gains will be emphasized with all the managers except the specialized sector, where high current return will be dominant.



# Account Protection

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MCM is pleased to be associated with TD Ameritrade as our Custodian. TD Ameritrade is a wholly owned subsidiary of Toronto Dominion Bank, rated seventh strongest bank in the world. As being part of TD Bank, accounts are insured through FDIC up to \$250,000 and up to \$500,000 per Insured Deposit Account. In addition, Securities Investor Protection Corporation (SIPC) protects the accounts up to \$500,000. TD Ameritrade also provides \$149.5 million worth of protection for each client through supplemental coverage provided by London insurers. This coverage provides you protection against brokerage insolvency and does not protect against loss in market value of the securities. In special situations, we may utilize other custodians for handling certain client assets.

# Full Service

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ACH (Automatic Clearing House) cash transfers provide money to clients needing monthly withdrawals or periodic withdrawals from their accounts. This bank-to-bank wire service is similar to wiring money; however, there is no cost to the client's MCM account or the related personal bank account. Clients needing regular income from their investment account find this service very convenient.

All IRAs, traditional, SEP, ROTH, SIMPLE, most 401 (k) and 403 (b) plans retire an administrator and like the IRAs no additional fees are charged to the account.

## Fees

MCM is a full service, fee-based management firm where clients are charged based on the value of their portfolios. This is another way of removing potential conflicts of interest as the incentive is to maximize client returns on a consistent basis rather than generating transactions or trades for commissions. MCM operates on an institutional level which reduces transaction costs, outside management fees and custodial fees while passing the benefit along to the client. These features, normally available only to institutions or the very wealthy, are an added benefit to each of our clients. All this enhances the performance to our client on an after-fee basis.

# Reports

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Each month, our clients will receive a comprehensive statement from TD Ameritrade showing the security positions, along with an activity report for the month. Quarterly, a performance report is provided by MCM, to track the portfolio performance. This report compares the client's performance to a corresponding index and shows how that manager has performed relative to the universe of managers in the same market.

Annually, a tax report will be sent to the clients detailing their short, mid- and long-term gains, dividends and interest. A summation report, detailing each of these entries is included, enabling clients to enter only the sum total of each category on their tax returns, greatly simplifying their tax preparation.

# Selection of Money Managers

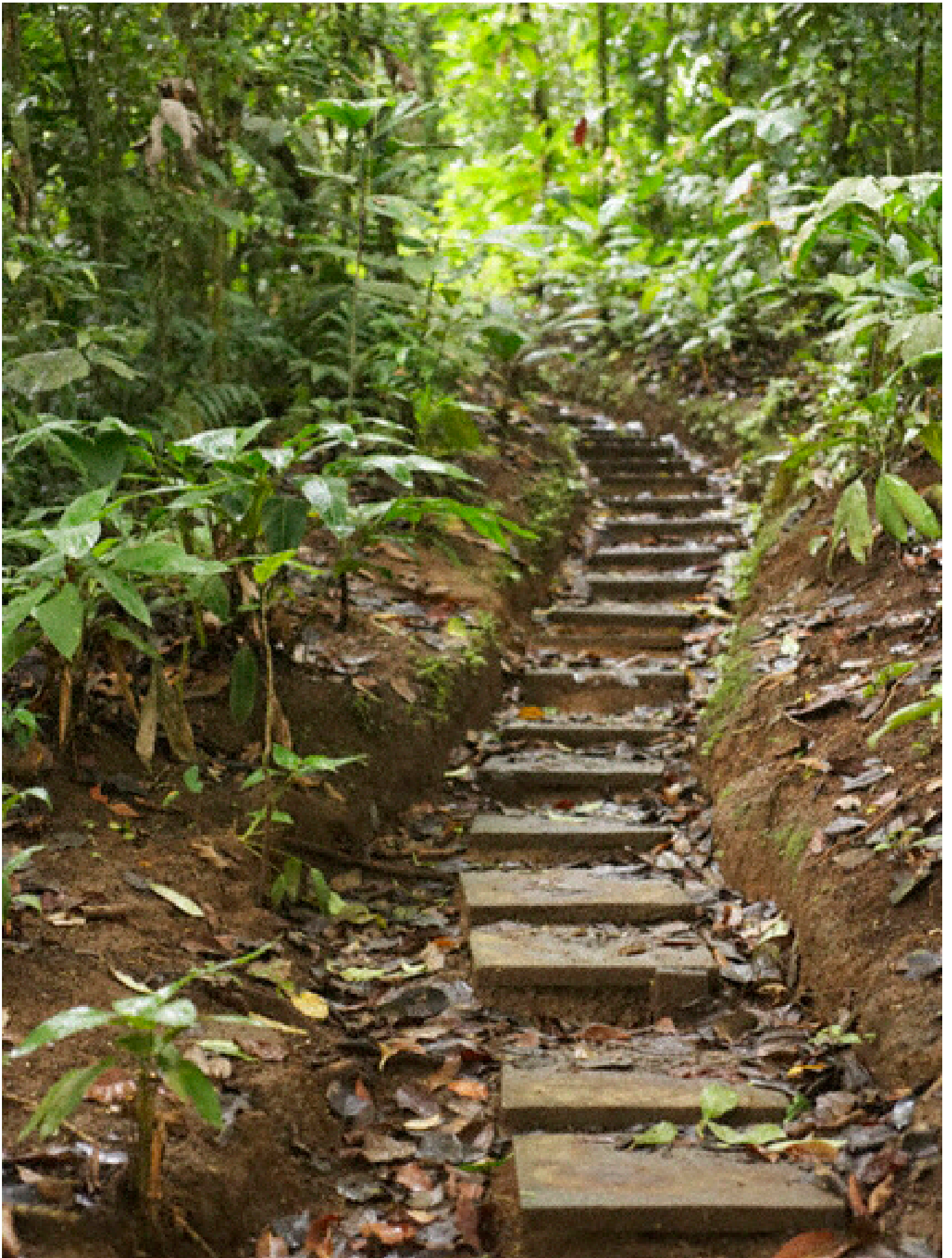
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MCM is committed to bring you the best managers in each of the market sectors. In most instances, investment trusts and institutional mutual funds are MCM's primary focus for investment vehicles.

Institutional funds are designed for the use of investment advisors or other institutions and generally have a minimum investment of between five million and ten million dollars. The expense ratio or fee the manager charges to administer the fund is typically one third to one half the fee charged by retail fund managers.

As an alternate, MCM often uses Exchange Traded Funds (ETF) for specific sector investments. An ETF trades like a stock on the exchange. Inside the ETF is a fixed basket of stocks, typically between 25 and one hundred. ETFs may represent a small specific sector of the market or emulate an index of stocks. One of the main differences between an ETF and a mutual fund is the ETF has a constant number of the same unmanaged stocks; while a mutual fund has a managed, changing internal composition.

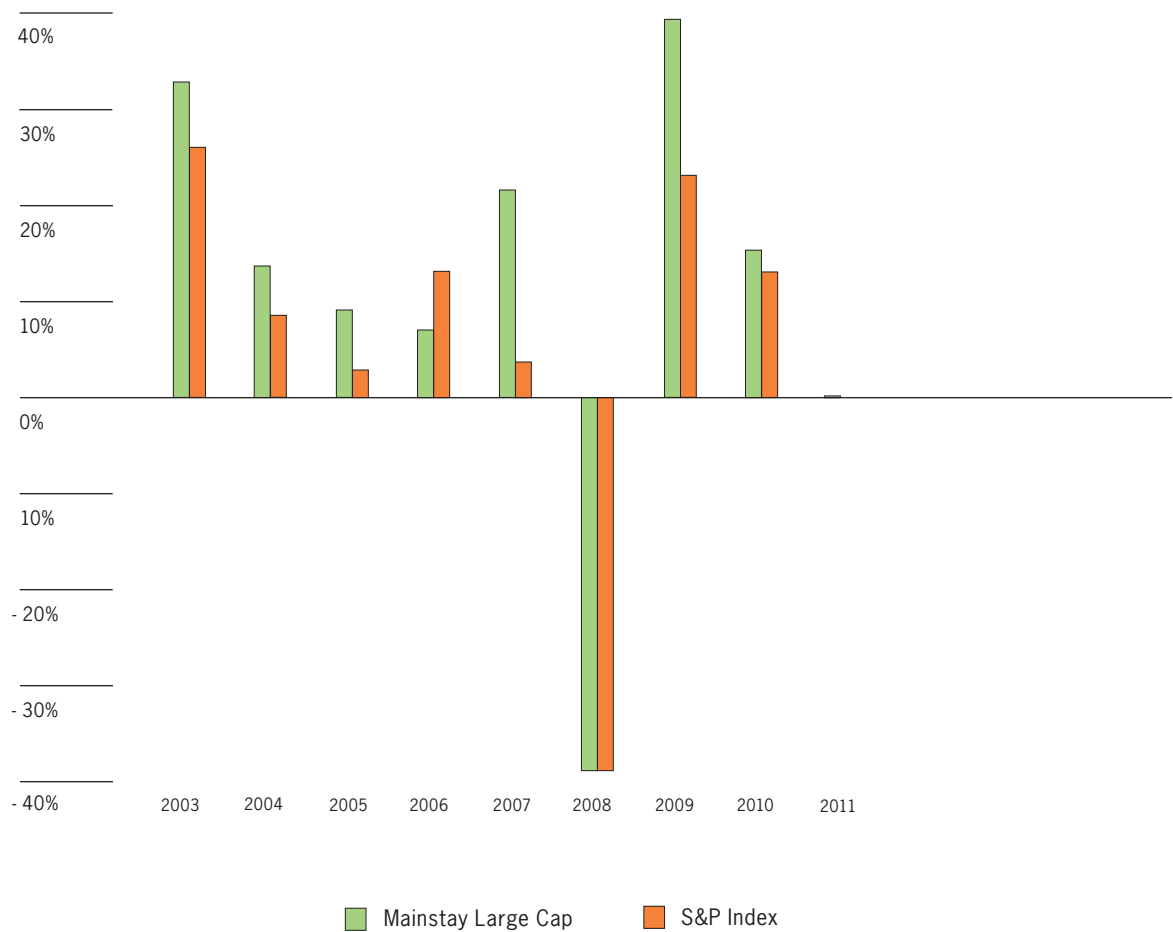
The objective of the fixed income portion of the portfolio will be to maximize the total return through income and capital gains. Since bond prices move inversely with the direction of interest rates, MCM shifts among long, intermediate and short term bond funds to maximize total performance.





# Large Capitalization Equity

## Mainstay Large Cap Growth Institutional



## Performance

	Rate	S&P Index	
<b>2003</b>	32.84%	26.38%	<p>■ Mainstay is managed by Clark Winslow, of Winslow Capital Management, since the inception of the fund in 1992. Since then they have added Justin Kelly and Bart Wear to the management team. Winslow Capital Management is an equity only manager with a disciplined investment approach to growth stocks producing excellent results.</p>
<b>2004</b>	13.96%	8.99%	
<b>2005</b>	9.52%	3.00%	
<b>2006</b>	7.17%	13.62%	
<b>2007</b>	21.57%	3.56%	
<b>2008</b>	-38.38%	-38.49%	
<b>2009</b>	39.73%	23.45%	
<b>2010</b>	15.65%	12.78%	
<b>2011</b>	0.19%	0.00%	
<b>Average</b>			
	3.98%	0.56%	

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### NFJ Large Cap Value Institutional



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## Performance

	Rate	S&P Index	
<b>2001</b>	12.80%	-13.04%	<p>■ NFJ has four managers, Ben Fischer and Chris Najork who both founded NFJ, along with Paul Magnuson and Jeffrey Partenheimer. Additional research is provided by a broad team of analysts bringing the total number of members to 30. Stocks in this portfolio must pay dividends and are valued under the industry average. Their investment style is to hold positions for long term growth with an average holding period of three years.</p>
<b>2002</b>	-6.80%	-23.37%	
<b>2003</b>	25.70%	26.38%	
<b>2004</b>	17.10%	8.99%	
<b>2005</b>	10.20%	3.00%	
<b>2006</b>	21.30%	13.62%	
<b>2007</b>	3.90%	3.56%	
<b>2008</b>	-40.56%	-38.49%	
<b>2009</b>	16.18%	23.45%	
<b>2010</b>	12.71%	12.78%	
<b>2011</b>	1.83%	0.00%	
<b>Average</b>			
	6.76%	1.54%	

# Small Capitalization Equity

Columbia Acorn Institutional // Asset Manager vs Index Annually





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## Performance

	Rate	Russell 2000 Index	
<b>1996</b>	22.55%	14.87%	■ Charles McQuaid and Robert Mohn invest primarily in common stocks of small and medium-sized U.S. companies.
<b>1997</b>	24.98%	20.39%	
<b>1998</b>	6.02%	-3.45%	
<b>1999</b>	33.38%	19.62%	
<b>2000</b>	10.06%	-4.20%	
<b>2001</b>	6.14%	1.03%	
<b>2002</b>	-13.31%	-21.58%	
<b>2003</b>	45.68%	45.37%	
<b>2004</b>	21.51%	17.00%	
<b>2005</b>	13.11%	3.32%	
<b>2006</b>	14.45%	17.00%	
<b>2007</b>	7.69%	-2.75%	
<b>2008</b>	-38.55%	-41.33%	
<b>2009</b>	39.65%	25.22%	
<b>2010</b>	26.00%	25.29%	
<b>2011</b>	-4.61%	-5.45%	
<b>Average</b>			
	12.81%	6.37%	

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### Allianz NFJ Small Cap Value Institutional



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## Performance

	Rate	Russell 2000 Index	
<b>1999</b>	-6.40%	19.62%	■ Paul Magnuson, lead manager, along with Ben Fischer, Burns McKinney and Morley Campbell invest in small publicly traded companies. Their style is conservative, investing in companies with low price/earnings ratios and above average dividends.
<b>2000</b>	21.70%	-4.20%	
<b>2001</b>	19.10%	1.03%	
<b>2002</b>	3.20%	-21.53%	
<b>2003</b>	30.70%	45.37%	
<b>2004</b>	23.60%	17.00%	
<b>2005</b>	10.80%	3.32%	
<b>2006</b>	19.00%	17.00%	
<b>2007</b>	6.50%	-2.75%	
<b>2008</b>	-26.20%	-41.33%	
<b>2009</b>	24.48%	25.22%	
<b>2010</b>	25.36%	25.29%	
<b>2011</b>	2.52%	-5.45%	
<b>Average</b>			
	11.87%	6.04%	

# International Equity

## Allianz NACM Institutional Growth Opportunity



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## Performance

	Rate	EAFE Index
<b>1996</b>	18.27%	3.97%
<b>1997</b>	14.09%	0.93%
<b>1998</b>	36.34%	18.03%
<b>1999</b>	128.11%	25.27%
<b>2000</b>	-12.14%	-15.21%
<b>2001</b>	-26.08%	-22.61%
<b>2002</b>	-15.42%	-18.14%
<b>2003</b>	48.44%	36.32%
<b>2004</b>	23.04%	17.59%
<b>2005</b>	28.33%	10.86%
<b>2006</b>	29.42%	23.47%
<b>2007</b>	19.86%	13.37%
<b>2008</b>	-48.25%	-45.09%
<b>2009</b>	48.41%	27.75%
<b>2010</b>	25.30%	4.90%
<b>2011</b>	-17.04%	-14.82%
<b>Average</b>		
	18.83%	4.19%

■ Loretta Morris, Randall Kahn, Andrew Beal, Ernesto Ramos and Lawrence Speidell are the lead managers of an extensive team approach to managing this sector. Their style of investing is in mid cap growth and they move into large cap if the markets warrant the opportunity. There is a trend toward strong growth development in the foreign sector with the worldwide demand for products. Nicholas Applegate has capitalized on this high growth opportunity, which reflects in their outstanding performance. Their style of investing leads them to investing in multiple countries and focusing on undervalued strong growth stocks. They pay close attention to strength of currencies, inflation factors and stability of the governments where they place their investments.





# Specialized Sectors

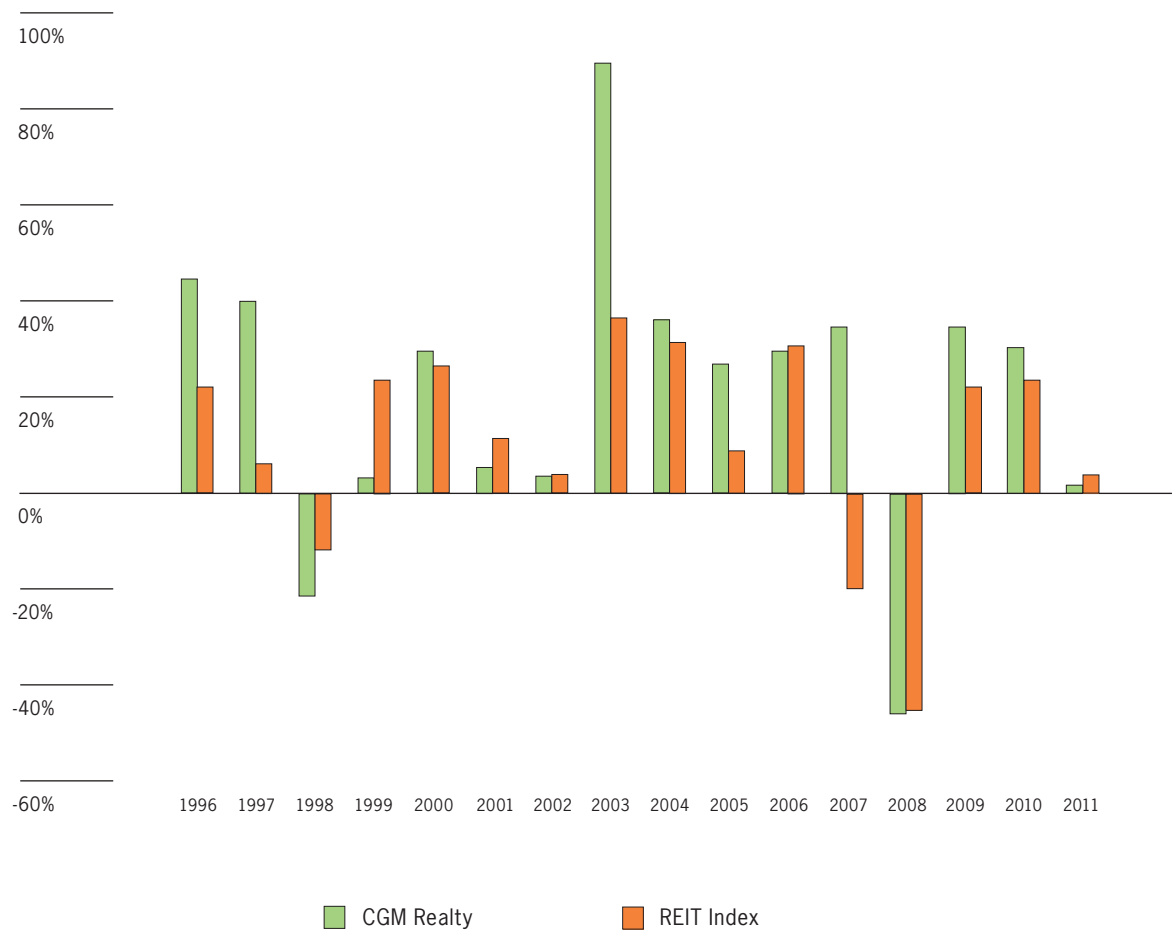
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## McRae Capital Management

The management of this portion of the market is accomplished by using sector institutional funds or ETF's (Exchange Traded Funds). There are times when we feel that taking advantage of investment opportunities in undervalued sectors may outperform the market averages to enhance your portfolio. MCM monitors sectors such as technology, natural resources, oil and gas, oil well services, financial services, biotech, and pharmaceuticals.

# Real Estate

## Capital Growth Management Realty



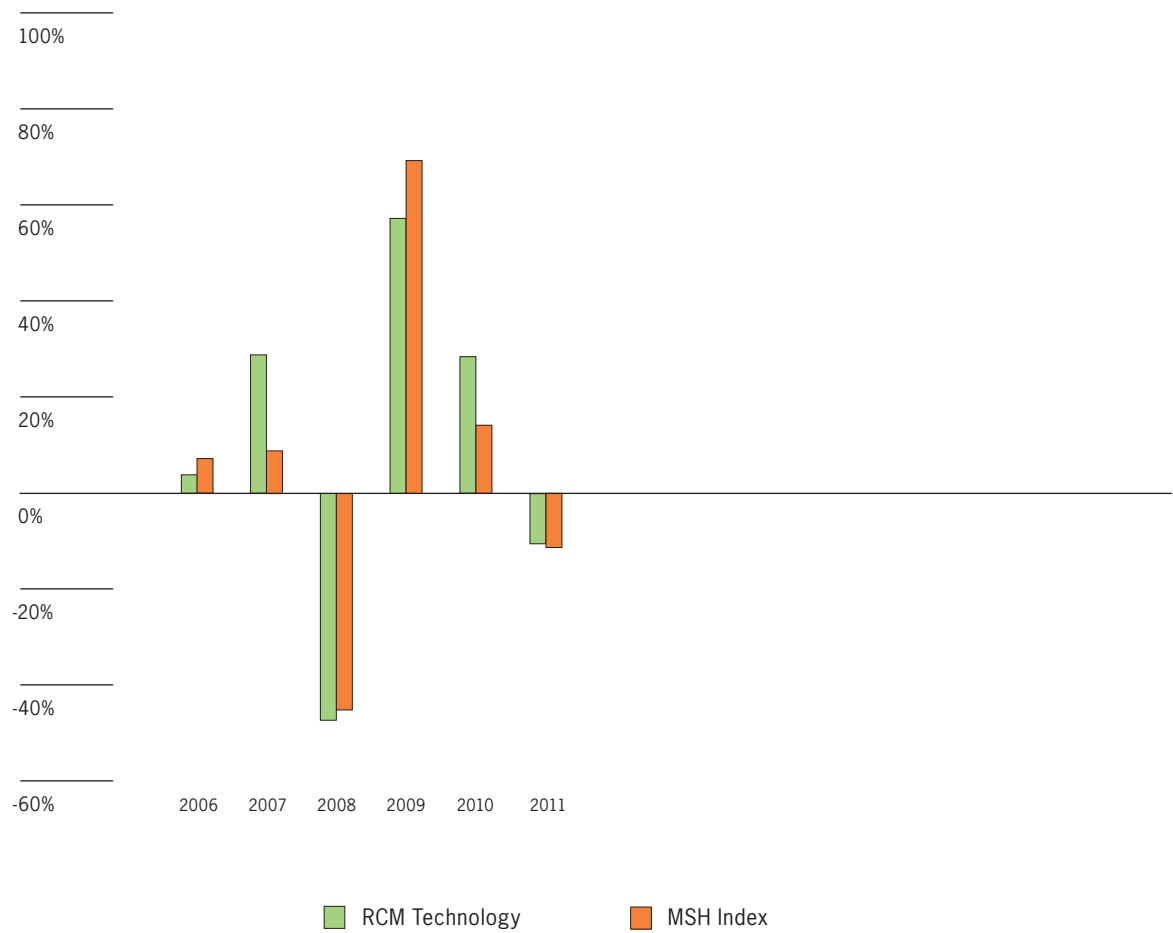
## Performance

	Rate	REIT Index
<b>1996</b>	44.08%	21.90%
<b>1997</b>	29.73%	5.47%
<b>1998</b>	-21.15%	-13.17%
<b>1999</b>	2.61%	22.89%
<b>2000</b>	29.16%	26.81%
<b>2001</b>	5.14%	11.93%
<b>2002</b>	3.49%	3.64%
<b>2003</b>	89.71%	36.74%
<b>2004</b>	35.52%	31.49%
<b>2005</b>	26.98%	8.86%
<b>2006</b>	29.01%	30.20%
<b>2007</b>	34.42%	-20.17%
<b>2008</b>	-46.82%	-41.51%
<b>2009</b>	34.33%	20.97%
<b>2010</b>	29.54%	23.53%
<b>2011</b>	1.03%	4.70%
<b>Average</b>		
	18.85%	10.16%

■ This value fund will invest a minimum of 65% in real estate and may invest up to 35% in fixed income. The fund seeks income and long term growth of capital. G. Kenneth Heebner has managed funds since 1971 and has managed this fund since its inception in 1994. His style is to shift the real estate emphasis among multifamily housing, office buildings and retail malls.

# Technology

## Allianz RCM Technology





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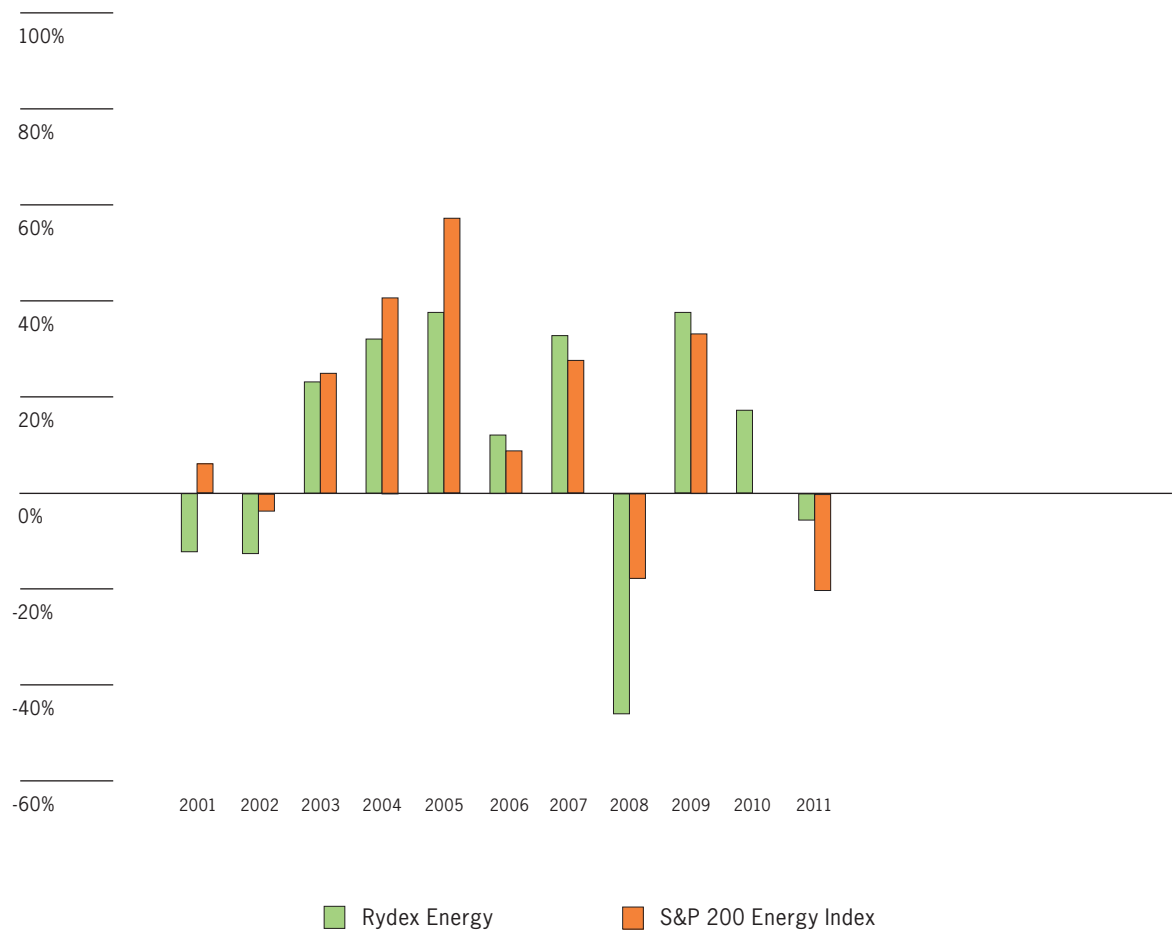
## Performance

	Rate	MSH Index
<b>2006</b>	4.74%	8.81%
<b>2007</b>	28.92%	9.56%
<b>2008</b>	-47.84%	-45.25%
<b>2009</b>	57.56%	69.62%
<b>2010</b>	28.48%	14.89%
<b>2011</b>	-10.34%	-11.34%
	<b>Average</b>	
	10.25%	7.71%

■ Walter Price, Jr. is a Managing Director at RCM, and a Senior Analyst and Portfolio Manager on the RCM Global Technology Team. Huachen Chen, CFA, received his B.S. in Materials Science and Engineering from Cornell University, an M.S. in Materials Science and Engineering from Northwestern University, and a M.B.A. from the University of California, Berkeley. Both are the lead managers since the inception of the fund in 1995.

# Energy

## Rydex Energy



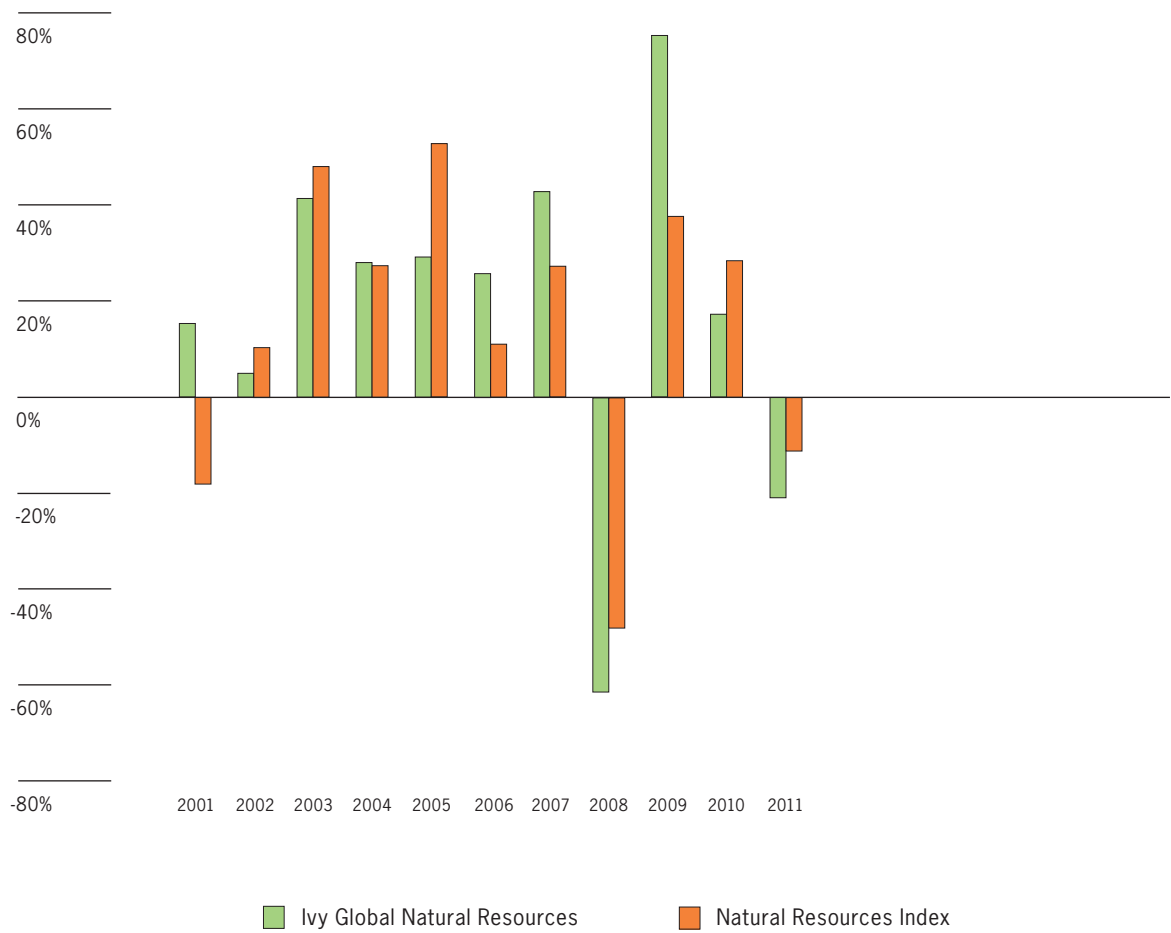
## Performance

	Rate	S&P 200 Index
<b>2001</b>	-13.63%	2.75%
<b>2002</b>	-13.69%	-4.51%
<b>2003</b>	23.64%	24.87%
<b>2004</b>	31.83%	40.65%
<b>2005</b>	38.02%	58.78%
<b>2006</b>	11.84%	9.28%
<b>2007</b>	32.77%	28.18%
<b>2008</b>	-45.81%	-18.64%
<b>2009</b>	38.28%	27.06%
<b>2010</b>	18.78%	-0.03%
<b>2011</b>	-5.95%	-20.92%
<b>Average</b>		
	10.55%	13.41%

■ Michael Byrum, CFA, Senior Vice President of Rydex Investments, has been managing the Rydex Energy Fund since its inception in 1998. Michael Dellapa joined the team in 2000 and Ryan Harder later in 2004. The fund invests in energy companies traded in the United States that are involved in all aspects of the energy industry, including the conventional areas of oil, gas, electricity, and coal, and alternative sources of energy such as nuclear, geothermal, oil shale, and solar power. They may include companies that produce, transmit, market, distribute or measure energy; companies involved in providing products and services to companies in the energy field; and companies involved in the exploration of new sources of energy, conservation, and energy related pollution control.

# Natural Resources

## Ivy Global Natural Resources



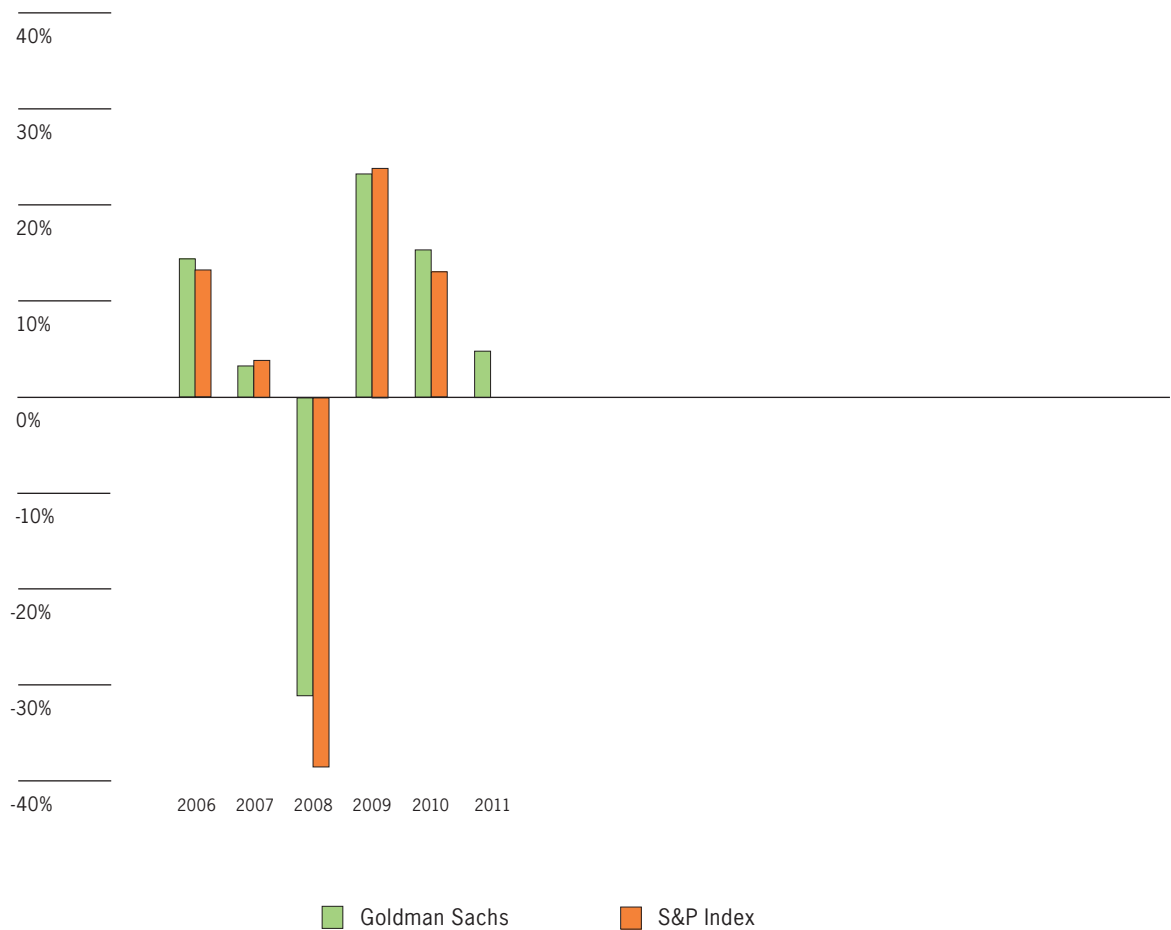
## Performance

	Rate	Natural Resources Index
<b>2001</b>	15.39%	-18.88%
<b>2002</b>	4.67%	10.16%
<b>2003</b>	41.61%	48.35%
<b>2004</b>	28.46%	27.75%
<b>2005</b>	29.44%	53.06%
<b>2006</b>	25.98%	11.19%
<b>2007</b>	43.72%	27.50%
<b>2008</b>	-61.27%	-48.63%
<b>2009</b>	75.14%	37.76%
<b>2010</b>	17.19%	28.30%
<b>2011</b>	-21.39%	-11.37%
<b>Average</b>		
	18.09%	15.02%

■ Frederick Sturm, CFA, has been the lead manager with MacKenzie Financial Corporation's Natural Resource Fund since 1996. They are Ivy's sub-advisor using an equity style that focuses on both growth and value, as well as utilizing both a top-down (the creation of macro-economic models to prepare an outlook for economic and market conditions) and a bottom-up (fundamental, company by company) approach. For individual security selection, the manager maintains models for hundreds of companies worldwide in sectors including integrated energy, chemicals, steel, forest products, base and precious metals, coal and uranium, and agricultural commodities.

# Growth & Income

## Goldman Sachs US Equity Dividend & Premium



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## Performance

	Rate	S&P Index	
<b>2006</b>	14.53%	13.62%	■ Donald J. Mulvihill, Chief Investment Officer, Customized Beta Strategies, heads up the management of this fund. He is assisted by Monali Vora, CFA, who specializes in tax benefits in equity portfolios. The investment objective is to collect 2 ½% - 3 ½% in dividends and an additional 3% - 4% in covered option writing. Our objective in investing in this portfolio is to receive high income with minimal risk in a sideways or oscillating market.
<b>2007</b>	2.99%	3.56%	
<b>2008</b>	-31.93.%	-38.49%	
<b>2009</b>	23.03%	23.45%	
<b>2010</b>	15.07%	12.78%	
<b>2011</b>	4.90%	0.00%	
<b>Average</b>			
	4.77%	2.49%	

# Contrary Hedge Equity

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## Reydex Inverse Russell and Reydex Inverse S&P 500

This fund is available as a hedge against other investments, when some of the markets are in a downtrend. This fund will appreciate in a down market and can be used as an investment to offset other positions that need to be held to preserve long term gains.

This is not an investment that is present in the portfolio at all times, but rather is used when a major downturn in the market is detected.











# Fixed Income

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## McRae Capital Management

MCM will use the three fixed income style durations to achieve the objectives for the fixed income portion of the portfolio. In conservative to moderate accounts short term & intermediate term funds will be used. For moderate to aggressive accounts, short term, intermediate term and long term funds will be utilized. MCM will focus on interest rate trends, inflation rates, government monetary policy and corporate earnings to determine the best bond sector to place investments. MCM shifts among the fixed income sectors to take advantage of interest rate swings resulting in enhanced total return.

Bonds fluctuate in value depending on the direction of interest rates and it is the objective of MCM to capture the total return of bonds which is a combination of the interest paid along with the potential appreciation. MCM will shift the client's fixed income part of the portfolio among short, intermediate and long term bonds depending on interest rate trends. We measure our fixed income performance against the Barclay's Composite Bond Index.

### Long Term Bonds (10-30 yrs) // Pimco Government Bonds Institutional



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## Performance

	Rate	Barclay's LTB Index	
<b>1997</b>	15.02%	15.12%	■ James Keller is the manager of this part of the portfolio. As interest rates are falling the favored fixed income investment is best achieved with long term bonds. As interest rates decline, bonds appreciate in value.
<b>1998</b>	13.40%	12.60	
<b>1999</b>	-7.99%	-8.70%	
<b>2000</b>	20.38%	20.11%	
<b>2001</b>	5.52%	4.56%	
<b>2002</b>	18.88%	17.17%	
<b>2003</b>	3.71%	2.09%	
<b>2004</b>	7.26%	7.97%	
<b>2005</b>	4.88%	6.71%	
<b>2006</b>	1.16%	0.85%	
<b>2007</b>	9.20%	9.81%	
<b>2008</b>	13.60%	23.47%	
<b>2009</b>	-2.08%	-10.97%	
<b>2010</b>	12.09%	9.37%	
<b>2011</b>	28.08%	34.20%	
<b>Average</b>			
	9.54%	9.62%	

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**Intermediate Term Bonds (3-10 yrs) // Pimco Total Return Institution**

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## Performance

	Rate	Barclay's ITB Index	
<b>1997</b>	10.17%	7.87%	■ William Gross manages this portfolio and is also director of fixed income for Pimco.
<b>1998</b>	9.77%	8.42%	
<b>1999</b>	-0.28%	0.44%	
<b>2000</b>	12.09%	10.18%	
<b>2001</b>	9.49%	7.98%	
<b>2002</b>	10.20%	9.29%	
<b>2003</b>	5.56%	2.21%	
<b>2004</b>	5.15%	2.84%	
<b>2005</b>	2.89%	1.59%	
<b>2006</b>	3.99%	2.61%	
<b>2007</b>	9.07%	8.84%	
<b>2008</b>	4.82%	11.15%	
<b>2009</b>	13.83%	-0.58%	
<b>2010</b>	8.83%	4.15%	
<b>2011</b>	4.16%	6.67%	
<b>Average</b>			
	7.32%	5.58%	

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### Pimco Real Return Bonds Institutional (Inflation Indexed Bonds)





## Performance

	Rate	Barclay's ITB Index
<b>1997</b>	4.46%	7.72%
<b>1998</b>	5.21%	8.51%
<b>1999</b>	5.72%	0.40%
<b>2000</b>	13.48%	10.47%
<b>2001</b>	8.70%	8.42%
<b>2002</b>	17.06%	9.63%
<b>2003</b>	8.50%	2.30%
<b>2004</b>	9.20%	2.84%
<b>2005</b>	2.64%	1.59%
<b>2006</b>	0.28%	2.61%
<b>2007</b>	11.59%	8.84%
<b>2008</b>	-6.42%	11.15%
<b>2009</b>	17.47%	-0.58%
<b>2010</b>	7.33%	4.15%
<b>2011</b>	11.11%	6.67%
<b>Average</b>		
	7.59%	5.65%

■ John Brynjolfsson has been managing this portfolio since its inception. Most bonds pay a fixed rate dividend over the life of the bond. Inflation Indexed Bonds are unique inasmuch as the dividend is reset to the inflation rate. As inflation goes up, interest rates rise and traditional bonds lose value. Inflation Indexed Bonds raising their rate with inflation helping to hold their value.

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### Short Term Bonds (0-3 yrs) // Pimco Low Duration Institutional



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## Performance

	Rate	Barclay's STB Index	
<b>1997</b>	8.23%	6.65%	<p>■ William Gross manages this portfolio and is also director of fixed income for Pimco. Interestingly this bond fund will often perform contrary to other longer term bond funds. Usually there is an inverse relationship between bond prices and the direction of interest rates. William Gross invests in very short term bonds in a rising interest rate market and continues to roll forward into new bonds with higher interest coupons, thus many times, showing appreciation to this portfolio.</p>
<b>1998</b>	7.16%	8.92%	
<b>1999</b>	2.97%	0.21%	
<b>2000</b>	7.70%	2.39%	
<b>2001</b>	8.01%	7.84%	
<b>2002</b>	7.66%	6.01%	
<b>2003</b>	2.97%	2.02%	
<b>2004</b>	2.39%	1.54%	
<b>2005</b>	1.55%	1.48%	
<b>2006</b>	3.75%	4.12%	
<b>2007</b>	7.92%	7.10%	
<b>2008</b>	-1.25%	-4.58%	
<b>2009</b>	13.36%	1.39%	
<b>2010</b>	4.56%	4.23%	
<b>2011</b>	1.35%	3.87%	
<b>Average</b>			
	4.94%	3.45%	

# The Technology Market

Morgan Stanley High Tech vs S&P 500 Index (1994-2011)



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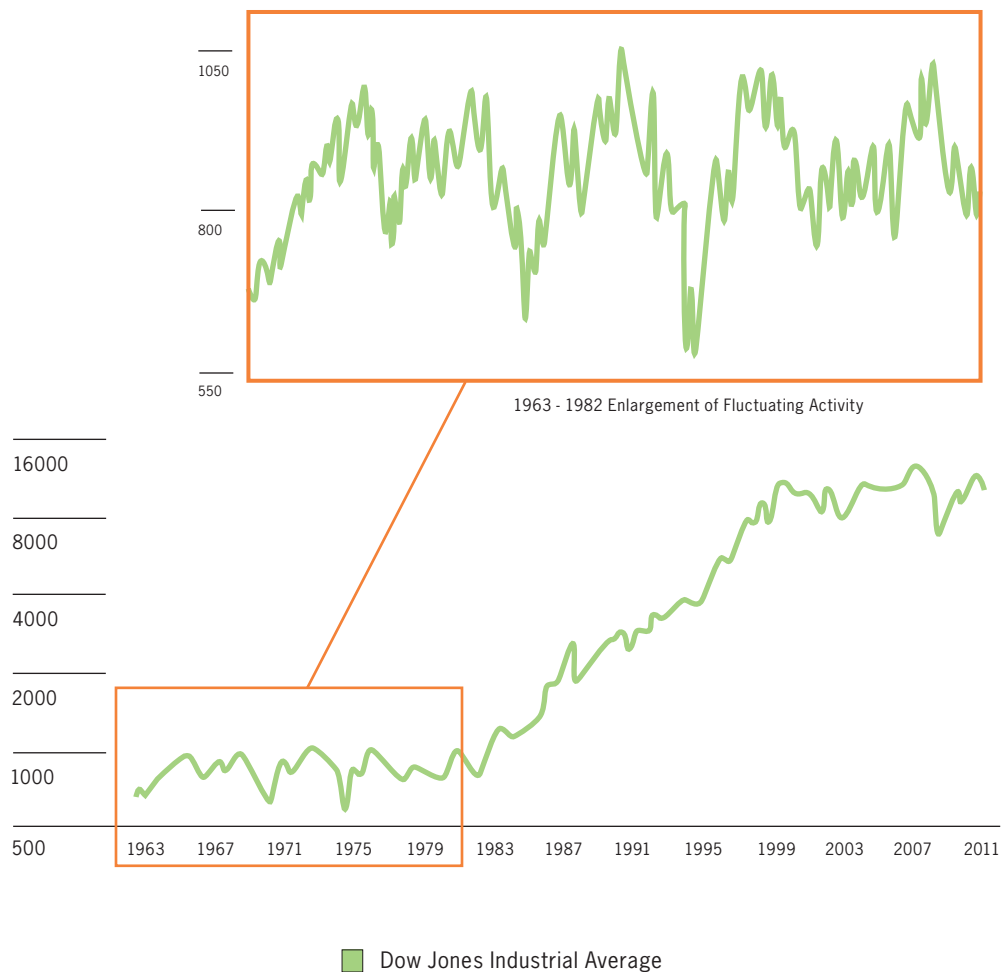
## Performance

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- Fifty percent of our economy today plays a role in technology and many of the technology companies are some of the fastest growth areas in the market. The Morgan Stanley High Tech Index comprises the thirty-five largest technology companies in the country. Many of which are household names. You can see by the graph, that since January 2004 to the present, the MSH Index has outperformed the S&P 500 index substantially even accounting for the volatility along the way. This is an example of one of the special sectors we invest in at opportune times.

# Inflationary Environment

Dow Jones Industrial Average 1963-2011



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## Performance

The economy is cyclical in nature with one of the cycles described as the inflationary deflationary cycle. Inflation is the result of creating excess currency. Excess money chases a limited supply of goods and services, thus driving up prices, and inflation resulting. The period from 1960 to 1980 was a good example of rampant inflation. During inflationary times, interest rates rose, commodities inflated in value and stocks become cheaper relative to earnings, measured by price earnings ratio, commonly known as PE ratio. We believe due to the excessive creation of money supply by the U.S Treasury and the Federal Reserve in recent times, the markets will experience excessive inflation once again.

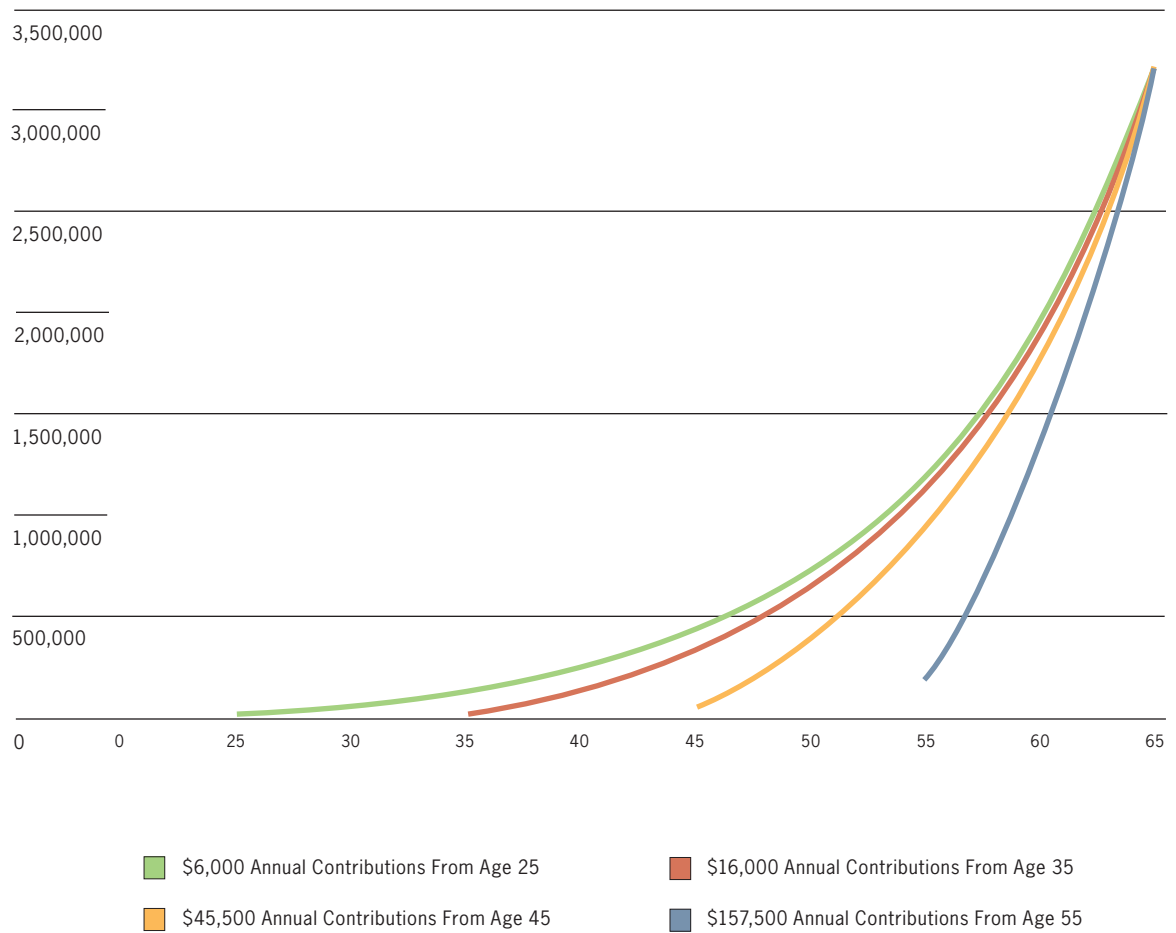
The chart illustrates the market activity of the Dow Jones Industrial Average from 1963 to the present. The inner window from 1963 to 1982 shows the market during inflationary times. The trending market\* from 1982 to 2001 was the result of deflationary times where PE ratios rose from an average of 7:1 to over 30:1.

The inner window shows the market\* fluctuating roughly between 750 and 1050. During this period, PE ratios\* declined from an excess of 20:1 to 7:1. It is the objective of McRae Capital Management to be proactive by exercising long term trading strategies to take advantage of this type of market. We feel this strategy will be one of the factors differentiating the investment technique of McRae Capital Management from many other managers.

\*Measured by the Dow Jones Industrial Average

# Annual Investment Comparison

Starting at Various Ages // Arriving at Same Investment Level Age 65





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## Performance

Age	Annual Investment
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25	\$6,000
35	\$16,000
45	\$45,500
55	\$157,500

■ We all hear about the power of compounding and this illustration dramatically shows the results of starting your investing early in life. The illustration shows four ages to start investing, assuming a 10% return each year, and finally reaching your goal of \$3,200,000 at age 65.

Assumption: The chart does not take into account market fluctuations, inflation or taxes and assumes a flat 10% return each year.



# Ideal Strategies for Allocation

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MCM goes through a process to determine what investment strategy is best suited for a client. Since the portfolios are diversified into various market sectors and each of our managers is well diversified within each sector, risk is better defined as volatility. In an ideal scenario, where the portfolio is fully invested, the first strategy would have 90% in fixed income and 10% in equities. Strategy four would be 50% in each and strategy seven would be 90% equities and 10% fixed income. During uncertain market times, MCM will change the allocation to a more conservative mode and in more certain times be fully invested. This allocation is determined by the investment committee using a combination of fundamental and technical analysis.

The following charts also show how MCM had their clients allocated at the end of the last quarter.

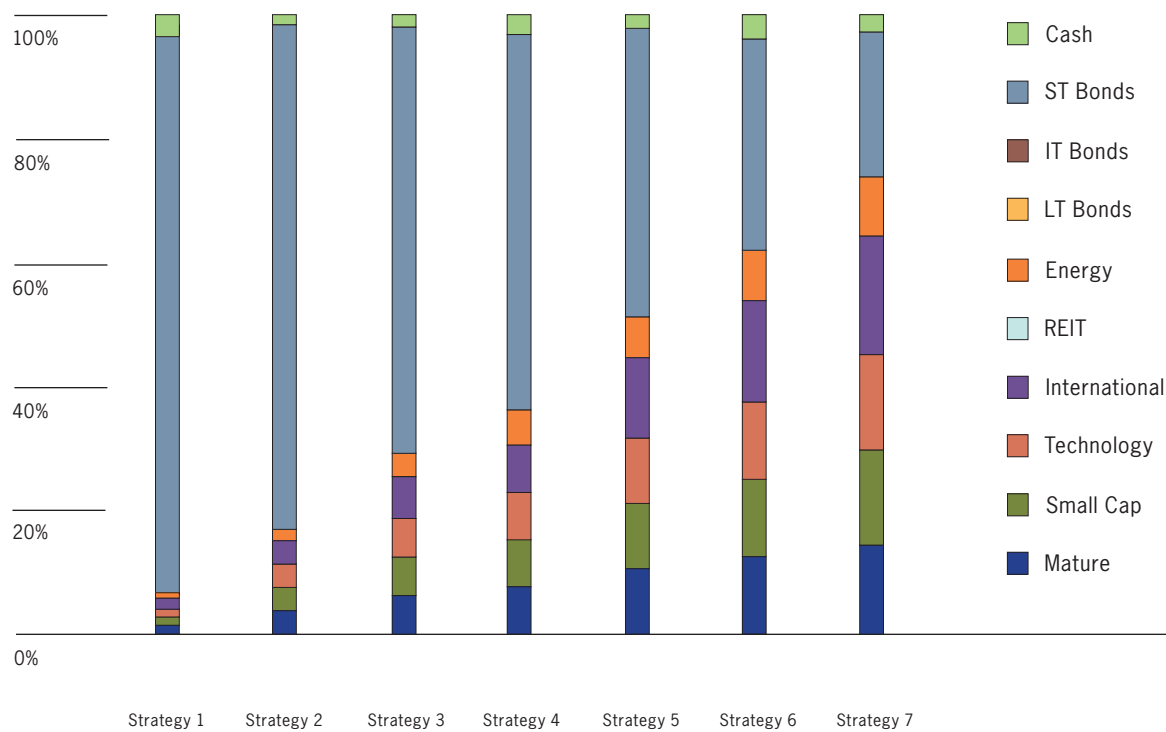
## Asset Allocation Models for December 2011

	Strategy 1	Strategy 2	Strategy 3	Strategy 4	Strategy 5	Strategy 6	Strategy 7
<b>Equity</b>	10%	24%	37%	50%	63%	76%	90%
<b>Fixed</b>	90%	76%	63%	50%	37%	24%	10%
<b>Mature</b>	1.5%	4%	6.5%	8%	11%	13%	15%
<b>Small Cap</b>	1.5%	4%	6.5%	8%	11%	13%	16%
<b>Technology</b>	1.5%	4%	6.5%	8%	11%	13%	16%
<b>International</b>	2%	4%	7%	11%	13.5%	17%	20%
<b>REIT</b>	0%	0%	0%	0%	0%	0%	0%
<b>Energy</b>	1%	2%	4%	6%	7%	8.5%	10%
<b>LT Bonds</b>	0%	0%	0%	0%	0%	0%	0%
<b>IT Bonds</b>	0%	0%	0%	0%	0%	0%	0%
<b>ST Bonds</b>	88.5%	80%	67%	55.5%	44%	31.5%	20%
<b>Cash</b>	4%	2%	2.5%	3.5%	2.5%	4%	3%
<b>Total</b>	100%	100%	100%	100%	100%	100%	100%

 Conservative

 Moderate

 Aggressive







# MCM Privacy Policy

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McRae Capital Management has always been and will continue to be committed to protecting the privacy of your personal information.

- At no time will the confidential information you have provided us be disclosed to non-affiliated third parties except as permitted by law. Nor do we reserve the right to disclose your non-public personal information. This includes all personal information we have received from you in connection with the services provided by McRae Capital Management. This is not limited to written information that you have provided for us, but also includes e-mailed information, telephone conversations and conversations with you, in or out of the office.
- We restrict access to confidential personal information about you to those employees who need to know that information to provide services to you.
- We maintain operational safeguards in our office and computer environment to comply with Federal standards to guard your confidential personal information.
- We require strict confidentiality in regards to your personal information in our agreement with TD Ameritrade.

While we are required to provide this information by the Gramm-Leach-Bliley Act, McRae Capital Management and its employees have always kept your personal information private and will continue to do so in the future. If you would like to contact us, please call 425.673.4090.

# SEC Filing

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## Security Exchange Commission

McRae Capital Management is required to file an ADV II form with the SEC and include it in the brochure to ensure full disclosure of the firm to its clients and prospective clients. Along with the ADV II is a yearend balance sheet also provided to the SEC showing the firm's financial soundness.



# ADV II

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## Uniform Application for Investment Advisor Registration

This part of the brochure answers questions designed by the Securities Exchange Commission to better inform the investment community about the investment company with whom they are entrusting their investments.

### Advisory Business

McRae Capital Management, (MCM), a privately owned entity, was formed in 1998 by Peter McRae, sole owner of the company.

MCM first and foremost, concentrates on managing the client's assets. Research, a component in managing assets, is a combination of fundamentals including economic data, corporate earnings; charting and technical analysis which is a mathematical measurement of market movement. Assets are invested mainly in institutional mutual funds. When the markets become overbought, profits are taken and then reinvested as the market corrects or gains value. Outside managers make the micro decisions as to which stocks or bonds to invest in, while MCM analyzes the overall markets to determine which sectors (group within the market) to invest in along with monitoring manager performance. If a manager underperforms over an extended period of time, MCM will shift to another manager.

Clients have several models or styles of investing to choose from depending upon their goals. Models vary in level of volatility. Although all the assets managed by MCM are on a discretionary basis, clients have the opportunity to purchase individual assets through MCM. These assets amount to a small percentage of the \$28 million under management as of December 2011.

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## Fees and Compensation

Fees will be charged quarterly in advance based upon the asset value on the 15th day of the preceding month. Accounts, except those individual accounts participating as part of a company sponsored retirement plan, will be charged 1.5% annually on the first \$5,000,000 and 1% annually on assets over \$5,000,000. The individual company sponsored retirement accounts will be charged 2.0% annually on first \$50,000, 1.375% up to \$5,000,000 and 1% after \$5,000,000 billed quarterly on all assets. No separate fees charged to clients for custody, IRA's, or wiring money to their bank accounts. Management fees are non negotiable. First years fees are contracted on a non-prorated basis if the client terminates, but are prorated after the first year with refund paid to client for termination during a quarter. Clients have the option to have the fees paid from their account or pay by check. There are no transaction costs or commissions charged to the client for managed assets. No other compensation is derived to MCM other than the management fees.

## Types of Clients

MCM works with high net worth individuals, trusts, ERISA accounts and corporate money.

## Methods of Analysis, Investment Strategies and Risk of Loss

- Choosing managers that are consistently in the upper performance quartile relative to other managers in the same market sector.
- Each manager has a diversified portfolio.

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- A diverse selection of managers in various market sectors.
  - Lessening exposure to the market during difficult markets.

## Disciplinary Information

MCM and the principals in the company have never had any disciplinary action brought against them nor is there any pending action by the civil courts or the SEC. This includes investment related business, or any criminal cases. MCM was never found to have been involved in a violation of an investment-related activity, or from violating an investment-related statute or regulation.

MCM and any of MCM's employees have never had administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.

MCM and any of MCM's employees have never been in violation or been involved in violation with a self-regulatory organization.

## Other Financial Industry Activities and Affiliations

MCM is a investment advisory firm and is not affiliated with any broker-dealers or any other firms. MCM is not affiliated or use pooled assets or limited partnerships.

MCM does not select, recommend or use other investment advisors for either the firm or our clients.

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## Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Pursuant to the SEC Rule 204A-1 addresses “supervised persons” monitoring securities trading. McRae Capital Management’s (MCM) investment style invests only in open end and closed end funds. This exempts MCM from the possibility of any insider trading. Additionally, since MCM does not make a market or act as a principal in any stock transactions, clients are not subject to any potential conflicts and none of the principals need supervising from these type of transactions since they do not exist.

The second part covers the “pay to play” rules that mainly cover state and local governments. This pertains to government officials getting a kickback from fund managers for approving their fund for government employee investment plans or state sponsored such as 529 Plans. MCM has no part in these transactions.

The third area for supervising has to do with clients selling “restricted 144 stocks”. The registration filing of this stock is done by the client’s firm legal department. The Chief Compliance Officer with the investment management firm would make sure the stock was not sold during a “black out period” and that all necessary information is provided to the compliance department of the client’s firm. MCM does not recommend individual securities nor does the firm handle 144 stocks for clients.

To protect the client’s assets, MCM has all assets held by a custodian. All checks are made out in the name of the custodian and conversely, all checks to the clients come from the custodian. Checks are either mailed to the address of record or wired in the form of an ACH with prior written authorization of the client. Disbursements to the client must have prior written instructions from the client asking for the money to be withdrawn and from which of the client’s accounts it is

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to be withdrawn from. The Chief Compliance Officer (CCO) must approve each withdrawal to assure that it is in proper form before monies are disbursed.

Employee accounts are monitored daily by the CCO to assure no improper activity is taking place. MCM employs managers with institutional funds with no commissions for the trades. MCM is fee based only collecting fees based upon the account size. Motivation for trades is only done when the investment committee deems it the best interest for the client. By being a fee based firm, this removes a potential conflict of interest.

Research is acquired through third party entities and not from our fund managers or custodian. This removes a potential conflict of interest of retaining a company for the research that may be providing substandard service to our clients.

Monthly statements are provided by the custodian along with the yearend tax reporting thus removing a potential conflict of interest.

MCM invests exclusively in mutual funds and ETFs and the only exception is when a client directs MCM to buy or sell a stock or bond to be held in the client's account on an unmanaged basis. MCM does not recommend security positions to the client.

## Brokerage Practices

MCM is not a broker-dealer and does not charge commissions to the clients. Operating as an investment advisor removes all potential conflicts of interests by only charging a fee on the account value.

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## Review of Accounts

MCM meets with most clients annually and some more frequently if necessary. The main focus is to substantiate that objectives are being met and to interview clients to determine if their objectives have changed. Financial plans will be made available if the client and principle of MCM feel a necessity or benefit to the client's new objectives.

## Client Referrals and Other Compensation

MCM pays for independent research from outside sources and has no soft dollar or financial arrangement with anyone for referrals. Only supervised persons within the firm bring in new accounts.

## Custody

All assets are held by qualified custodians. In most cases, monthly statements are provided by the custodian to the client. In cases such as the 529 Educational Plans, the custodian provides statements quarterly.

## Investment Discretion

MCM works almost exclusively with open end no load mutual funds that have no transaction fees. Our engagement agreement along with the custodian's forms that the client signs allow us discretion on securities to trade, the size of the trade and the firm to place the trades. We do not have power of attorney to withdraw money from the client's accounts except for management fees.

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## Voting Client Securities

The only proxies we receive are from the unmanaged individual securities that a client holds in their MCM account. We mail the proxies to the clients to have them vote on their own securities.

## Financial Information

MCM bills the client's management fees three months in advance and does not have custody of the client's assets. We do provide an unaudited balance sheet showing the financial condition of the company.

## Requirements for Advisors

Peter B. McRae: Born 12/22/1945; Education: Six years full time study majoring in Mathematics & Economics. For the next eight years, he worked for wealthy clients developing mergers and acquisitions of moderately large companies. Before becoming an investment advisor; sixteen years was as a stock broker in the Seattle area. From 1993 Peter has been a Registered Investment Advisor. His responsibilities include being an investment committee member, research analyst, bond analyst & trader, determining & executing asset allocation for firm, sales, conducting annual reviews with clients & compliance responsibilities.

Cheryl S. Wood: Born 11/14/1955; Education: High school graduate. Responsibilities: Cheryl has a long term successful history in the investment industry, starting out in the brokerage business in 1979. Since joining McRae Capital Management as a Registered Investment Advisor, her responsibilities include fundamental research, monitoring manager performance, researching new managers, part of the investment committee, marketing and reviews with clients.

The firm and its principles are not engaged in any other business and focus their full time efforts

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to managing the assets of our clients at MCM.

No one in MCM has ever been or is currently involved in a liable claim or found liable in a civil, self-regulatory organization, or administrative proceeding.

### Wrap Programs

MCM is not involved in wrap programs.



# MCM Balance Sheet

As of March 31, 2012

<b>Assets</b>	<b>Current Assets</b>	
	Checking/Savings: Key Bank Checking . . . . .	48,663.69
	Total Current Assets . . . . .	48,663.69
	<b>Fixed Assets</b>	
	Art Work . . . . .	5,205.68
	Computer System . . . . .	36,763.17
	Furniture . . . . .	32,577.74
	Telephone System . . . . .	3,814.37
	Total Fixed Assets . . . . .	78,360.96
	<b>Other Assets</b>	
<b>Liabilities</b>	Prepaid Rent . . . . .	3,635.00
	Total Other Assets . . . . .	3,635.00
	<b>Total Assets . . . . .</b>	<b>130,659.65</b>
	<b>Current Liabilities</b>	
	Bank Credit Cards: Bank of America Corporate Visa . . . . .	616.69
	Total Current Liabilities . . . . .	616.69
	<b>Total Liabilities . . . . .</b>	<b>616.69</b>
	<b>Owners Capital</b>	
	Investments . . . . .	9,000.00
	Total Owner's Capital . . . . .	9,000.00
<b>Equity</b>	Retained Earnings . . . . .	83,982.76
	Net Income . . . . .	37,060.20
	<b>Total Equity . . . . .</b>	<b>130,042.96</b>
	<b>Total Liabilities + Equity . . . . .</b>	<b>130,659.65</b>





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